ROCKERS
ROCKville Employees Retirement System

DRAFT

Board Meeting
November 16, 2012

PRESENT: Jack Rodgers, Chairperson; Mark Pierzchala, Councilmember; Gregory Hazlett, Citizen Representative; Tim Peifer, City Manager Representative; Cpl. Chris Peck, FOP Representative ; Anita McCombs, AAME Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisy Harley, Human Resources; Craig Graby, Hay Group; as well as Ryen Sherman, Segal Rogerscasey, Inc.

ABSENT: Kyle France, Union Representative and Barb Matthews, City Manager.

The meeting commenced at 10:00 a.m. with introductions. Mr. Rodgers welcomed Mr. Hazlett to the Board. He also requested that the order of the Agenda be revised in the order of IV, III, II, V, VI, VII to accommodate the late arrival of one Board Member.

I. Approval of Minutes September 7, 2012:

Mr. Rodgers asked if anyone had any changes or questions regarding the minutes. Mr. Cohen noted that Mr. Whalen's name will be corrected from Mr. Whalen to Mr. Boylan. Mr. Rodgers asked that the minutes reflect the need to add a follow up on the agenda of the next Board meeting regarding the City's liability insurance coverage limit for Retirement Board members. The Board requested that the Hay Group provide additional sentences to clarify the GASB 67 and 68 Agenda Item. Mr. Hazlett made motion to accept the minutes subject to the changes that were noted. Cpl. Peck seconded. All were in favor.

IV. RB Trust Investment Performance Review 3rd Quarter End September 30, 2012:

Mr. Cohen presented this report. He stated this report reflected the fund doing fine at the end of this quarter. Reports from MSCI have not shown anything held in the Retiree Benefit Trust for companies investing in Sudan since July. Cpl. Peck motioned to accept the 3rd quarter RB Trust Investment Performance Report as presented. Mr. Hazlett seconded it. All were in favor.

III. Investment Performance Review 3rd Quarter End September 30, 2012 Pension and Thrift Plan:

Mr. Sherman reviewed the third quarter performance reports for each Plan and discussed the costs of the Principal Plan and the costs of transitioning to a Manning and Napier separate account.

On the Pension Fund, Mr. Sherman reviewed and provided an update through October. He said the Pension Fund returned 10% year to date through October and that all the managers are performing in line with expectations.

Mr. Sherman reviewed the proposed fee reductions by Principal. He said that since the only service they are currently providing is the administration of the Benefit Index, which covers only 81 people, they have proposed to reduce the revenue sharing portion of the expense ratios for five of the six funds. The total cost of the funds would be reduced from 66 to 56 basis points. The Board thought this was still too high and requested Segal to go back and see if they would lower the total fees to 50 basis points. Principal had stated that they are still helping with the transition to Prudential, which has an associated cost. He noted that Principal has agreed to re-evaluate the fee structure on an annual basis to account for higher asset values and if there are less people in the Benefit Index.

Mr. Sherman discussed the updated analysis on moving Manning and Napier to a separate account, from the Prudential Mutual Fund. The analysis estimates a potential annual reduced management expense (saving) of $26,168. Segal confirmed with MSCI that there would not be an additional charge to conduct screens on companies who have business with Sudan. Therefore, there would not be an extra cost to screen the separate account. Segal also confirmed with Prudential that they do not receive any revenue on the current expense ratio and there wouldn't be additional costs to move off the platform. The Board decided to move to a separate account, which will lower the management cost on both the Pension and Retiree Benefit Trust. Segal will coordinate the transfer. There was some discussion on the potential trading costs to populate the separate account. Segal will get the trading costs from Manning &Napier once the portfolio is invested and see if Manning and Napier can transfer the assets in-kind from the mutual fund. Segal will report back to the Board on the trading costs.

The Board would like to revisit the asset allocation at the next meeting. The analysis will include keeping at least $25 million with Principal to avoid them purchasing "Benefit Index" annuities.

Mr. Sherman reviewed the Thrift Plan report ad noted that moving to the stable value fund has produced positive investment gains versus the zero gains participants were receiving with the money market.

Mr. Sherman noted that Segal included the performance and allocation of the goal maker funds in this report.

There are no issues with any of the investment options.

Councilmember Pierzchala made a motion to accept both the Pension Fund and the Thrift Plan Fund reports as presented. Mr. Hazlett seconded it. All were in favor.

II. Review of April 1, 2012 Actuarial Valuation Report (FY 2014):

Mr. Graby from the Hay Group presented the highlights of this report. He explained that the report represents the results of the Hay Group's actuarial valuation of the City's Retirement Plan as of April 1, 2013. The report also identifies the required employer contribution. He said the projected Annual Required Contribution (ARC) for the City of Rockville Retirement Plan for FY 2014 is $4,212,438. This contribution is $0.1 million lower than FY 2013 due to lower than expected pay increases. The actuarial value of assets was higher due to the recognition of deferred gains from 2009 and 2010. In total, the funded status of the plan increased from 70.0% to 75.6%.

Mr. Graby indicated that there are slight changes in plan provisions since the last valuation. The primary change is a change in the retirement eligibility for Administrative and Union employees hired after July 1, 2011. The Normal Retirement age for these employees is the first day of the month coinciding with or next following the later of an /Employee's 65th birthday, and completion of 10 years of Credited Service. The Normal Retirement Age for all Administrative and Union employees hired before July 1, 2011 is still the first day of the month coinciding with or next following the Employee's 60th birthday. Another change is the early retirement date for the Administrative and Union employees hired on or after July 1, 2011; for those employees hired after July 1, 2011, they must attain 58 years of age and ten years of service for early retirement eligibility as opposed to 50 years of age and 10 years of service for these personnel groups that were hired before July 1, 2011. The last change is the early retirement penalty for Administrative and Union employees hired on or after July 1, 2011. The early retirement benefit for those employees will be increased from 3% to 4.5% per year for each month the Employee retires early. For Administrative and Union employees hired after July 1, 2011, the early retirement benefit is increased by ¼ of 1% for each month the employee retires early.

Mr. Graby indicated that if the City contribution to the defined benefit plan on behalf of Administrative, Union and Police employees exceeds 6.5% of the earnings of those employees, the City may, at its discretion, impose a "Supplemental Employee Contribution" for the following year. The amount of the Supplemental Employee Contribution is limited to no more than 50% of the excess of the city contribution over 6.5% of the earnings of the Administrative, Union and Police employees. He continued with the report. After some discussion by the Board members, Councilmember Pierzchala moved to accept the report as presented. Mr. Hazlett seconded it. All were in favor.

V. Pension Plan Amendments/Pension Plan Redesign:

Mr. Cohen explained to the Board that Staff will be taking two Plan Amendments to the Mayor and Council on December 17, 2012. The first one that was approved by the Board at the meeting of September 7, 2012, to change the Plan date from a March 31 end date to a June 30 end date which aligns the Plan year with the City's fiscal year. The second one is required due to The Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act).

Mr. Cohen also notified the Board that the Mayor and Council approved the study to be done by the Hay Group and the results may be available at the February meeting. The report is required to be completed by January 31, 2013.

VI. Calendar 2013 Meeting Schedule:

Mr. Cohen explained that he tries to set the calendar in order for the Board to meet at least quarterly. The meetings are planned to give the consultants enough time to analyze our fund's performance data and to produce the required performance reports. Mr. Hazlett requested that the September meeting be held on September 13, 2013. Cpl. Peck made motion to approve the schedule to include the amended date of September 13. Councilmember Pierzchala seconded it. All were in favor.

VIII. Guidelines and Procedures for Citizen Boards and Commissions:

Mr. Cohen said that he wanted to inform the Board that the Mayor and Council recently adopted the guidelines and procedures for Citizen Boards and Commissions. The guidelines promote consistent standards of operations among the many Citizen Boards and Commissions.

VII. Future Agendas:

The Board decided the following items will be on the future agenda:

- Ethics Policy/M&C new ethics standards when adopted (Staff)
- City Code changes related to responsibilities of the Retirement Board (JR)
- Award of Investment Consultant RFP (Staff)
- Pension Plan Redesign (Staff)
- Pension Plan Amendments-Death Benefits: Part Time Employees (Staff)
- Liability Coverage/Should the Amount be Increased?
- Asset Allocation

Councilmember Pierzchala made motion to adjourn. Mr. Hazlett seconded it. All were in favor.

The meeting adjourned at 12:20.